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SUBJECT: South Africa: Fuel Price Increases

REF: PRETORIA 2998

Summary

1. (U) On October 5, the Department of Minerals and Energy announced a 2.64% increase in the price of gasoline at retail outlets, accompanied by larger wholesale increases for diesel (5.9%) and kerosene (8.5%). This comes after two successive price decreases in July and August. The current price of gasoline is only a half a U.S. cent less than June's all time high (reftel). Diesel and kerosene are at record highs. The government has no plans to tap into its Fuel Equalization Fund to smooth retail gasoline price increases as it did in June. Analysts generally agree that South African economic growth will not be seriously hurt as long as fuel price increases subside during the next six to twelve months and there is no major weakening of the rand. On October 6, Reserve Bank Governor Tito Mboweni flatly stated that surging oil prices were an inflationary risk and reduced the likelihood of another interest rate cut when the Monetary Policy Committee meets on October 13 and 14. So far, the continuing strength of the rand has protected South African consumers from the full impact of rising world crude oil prices. End Summary.

Government Announces a Fuel Price Increase

2. (U) On October 5, the Department of Minerals and Energy announced a 2 U.S. cents per liter (7.6 U.S. cents per gallon) increase in the price of gasoline, and approximately 4 U.S. cents per liter each for diesel and kerosene (approximately 15 U.S. cents per gallon each). These increases raised the average retail price per liter of gasoline in Johannesburg to 73 U.S. cents (\$2.76 per gallon) and the wholesale price of diesel and kerosene to 68 and 53 U.S. cents per liter (\$2.58 and \$2.00 per gallon), respectively. Diesel prices in South Africa normally rise between October and March because winter demand for heating oil in the northern hemisphere drives up international prices. This routinely poses a problem for South African farmers, who use diesel to plough in the southern hemisphere's spring and summer. This year, however, the increases may lead to slightly higher food prices than otherwise would be the case.

The Fuel Equalization Fund

3. (U) The Fuel Equalization Fund was established in the 1970's to subsidize SASOL's synthetic fuel production when SASOL was still a government corporation. The government imposed a 1.2 U.S. cents per liter levy on fuel sales to support the fund. The levy was discontinued when the crude price went above \$16/bbl, and reintroduced on a sporadic basis when crude prices were especially high. This happened twice during the Gulf war in 2002 and in June of 2004 when the government withdrew \$20-25 million to take the edge off a big price increase. Currently, the fund has a reserve of \$70-80 million, enough to subsidize fuel prices for about four months at 2 U.S. cents per liter. The Central Energy Fund manages the fund, but Treasury and the Department of Minerals and Energy jointly control it.

4. (U) The South African Petroleum Industry Association, whose membership includes refiners and retailers, predicts another round of fuel price increases in November. If this happens, South African gasoline prices would reach another all-time high. Another factor that will determine prices is the strength of the rand. Since June, the South African rand has weakened against the dollar some 5%; it is currently trading at around R6.5 to the dollar.

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